

How long can a bankruptcy *really* haunt you?

One of the biggest questions we get in this industry is how long certain items remain on a credit report. A Chapter 13 bankruptcy will remain for 7 years from the filing date and a Chapter 7 bankruptcy will remain for 10 years from the filing date. Once a bankruptcy is discharged the hope is your credit scores will start to improve the further out the bankruptcy gets. So why is it that two years after the discharge when you check your credit report those scores still haven't moved much or are even possibly worse?

There are many creditors who never get around to correctly reporting an account once the bankruptcy has been discharged. So it is often very likely you will see many accounts that show as collections or charged off accounts that were in fact part of the bankruptcy. The best way to combat this is to order a copy of your credit report and dispute those accounts directly with the bureaus so that they show correctly.

The bigger challenge is creditors who do report correctly as being part of the bankruptcy but then continue to report the account every month. Theoretically once an account has been discharged through a bankruptcy the creditor should stop reporting the account to the credit bureaus. Legally they can continue to report it for seven years. The problem is that they do not understand the harm this is doing to the borrower on a couple of different levels. The bureaus scoring models place the emphasis on the reporting date, not the date of last activity (DLA). Reporting an account every month makes it look as a current derogatory even through the bankruptcy may have been discharged two or more years ago. Every month they do this is the potential for your scores to decline even more.

The other issue this presents is from an automated underwriting standpoint. Direct Origination (DO) and Direct Underwriting (DU) will pick up on the current report date and give it a "refer" because it is viewed as a bankruptcy that occurred in the last 12 months. The catch 22 is the bureaus will not backdate. Disputing the account to show the bankruptcy was discharged years ago may have a negative affect on the borrower since it will bring the reporting date current.

What can a borrower do if the creditor continues to report the account every month? They should contact the creditor and request they stop reporting it since there is no activity on it. The borrower should request the "reporting department" and a manager. The borrower could also file a complaint against the creditor with the Federal Trade Commission (www.ftc.gov). If enough people file a complaint, then the FTC may begin to look into creditors reporting practices and



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how it affects a borrowers credit scores. The borrower could request the creditor remove the entry all together from the credit report as it is essentially being misreported with no activity on the account since the date of the discharge.

Unfortunately there is no perfect answer. But it is something that borrowers need to be aware of and something they should bring to the attention of their creditors. In a perfect world the FTC, the creditors and the bureaus would all come to an understanding and work together to resolve these issues. The chances of this occurring may be slim, but the more their attention can be directed to the issues, the better.

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